

Message Text

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ACTION ARA-10

INFO OCT-01 EB-07 ISO-00 /018 W
----- 051235

R 192118Z NOV 76
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 2301
USDOC WASHDC
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 8209

E.O. 11652: GDS

TAGS: BEXP, ENRG, EC

SUBJECT: GOE ANNOUNCES TENTATIVE DECISION TO AWARD CONTRACT FOR
ESMERALDAS REFINERY'S OFFSHORE TERMINAL TO SPANISH-
ITALIAN GROUP

REFS: (A) QUITO 5904; (B) QUITO 6033

1. BEGIN CONFIDENTIAL. SUMMARY: THE GOE HAS ANNOUNCED IT
WILL AWARD TO A SPANISH-ITALIAN GROUP THE CONTRACT FOR CONSTRUCTION OF THE URGENTLY-NEEDED OFFSHORE TERMINAL FOR THE SOON-TO-BE-FINISHED ESMERALDAS PETROLEUM REFINERY, PROVIDED THAT FURTHER NEGOTIATIONS WITH THIS GROUP SUCCESSFULLY RESOLVE SOME POINTS NOT ADEQUATELY COVERED IN THE ORIGINAL BID INVITATION. THIS DECISION RUNS COUNTER TO THE REPORT OF A GOE TECHNICAL COMMISSION WHICH RECOMMENDED THAT THE CONTRACT BE AWARDED TO THE U.S. FIRM OCEANIC CONTRACTORS, AND THE DECISION ALSO IGNORES THE REPORT OF AN IDB EXPERT WHO HAD STRONGLY ENDORSED THE TECHNICAL COMMISSION'S CONCLUSION.

OCEANIC REPS ARE STILL HOPEFUL THAT NEGOTIATIONS BETWEEN SOTOMAR AND CEPE WILL BREAK DOWN AND CEPE WILL THEN OPEN DISCUSSIONS WITH OCEANIC AS THE NEXT-HIGHEST BIDDER. END SUMMARY. END CONFIDENTIAL.

2. BEGIN UNCLASSIFIED. IN MID-OCTOBER A GOE TECHNICAL COMMISSION SUBMITTED A REPORT TO THE STATE OIL CORPORATION, CEPE, CONCLUDING THAT, OF THE FOUR BIDS SUBMITTED FOR THE CONTRACT FOR THE CONSTRUCTION OF THE OFFSHORE TERMINAL, THE
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ONE SUBMITTED BY THE U.S. FIRM OCEANIC CONTRACTORS (A

SUBSIDIARY OF J. RAY MCDERMOTT OF NEW ORLEANS) WAS THE BEST IN TERMS OF BOTH PRICE AND TECHNICAL ASPECTS. SHORTLY AFTERWARDS AN EXPERT SUPPLIED BY THE IDB SUBMITTED A REPORT TO CEPE CONFIRMING THE TECHNICAL COMMISSION'S CONCLUSION. THE EXPERT (W. H. LEWIS, AN AMERICAN CITIZEN ON LOAN FROM THE U.S. ENGINEERING FIRM JAMES BUCKLEY OF WASHINGTON D.C.) STRESSED THAT OCEANIC'S OFFER WAS ESPECIALLY ADVANTAGEOUS IN THAT THE WORK UNDER IT WOULD BE CONDUCTED ON A BARGE AT SEA, WHEREAS THE OTHER OFFERS ENVISAGED LAND-BASED OPERATIONS THAT WOULD BE FAR MORE SUBJECT TO DISRUPTION FROM BAD WEATHER OR FROM THE EARTH TREMORS THAT NOT INFREQUENTLY STRIKE ESMERALDAS.

3. DURING THE PAST THREE WEEKS, CEPE HAS REPEATEDLY ANNOUNCED THE CONVENING OF MEETINGS AT WHICH THE FINAL DECISION WAS TO BE MADE ON AWARD OF THE CONTRACT; AT THE CONCLUSION OF EACH SUCH MEETING, HOWEVER, CEPE ANNOUNCED POSTPONEMENT OF THE DECISION. AFTER THE FIFTH SUCH MEETING, HELD ON THE EVENING OF NOVEMBER 17, CEPE ANNOUNCED THAT IT WILL ENTER INTO NEGOTIATIONS WITH THE SPANISH FIRM SOTOMAR (SOCIEDAD DE TRABAJOS Y OBRAS MARITIMAS S.A.) WITH A VIEW TO AWARDING THE CONTRACT TO THAT FIRM IF AGREEMENT IS REACHED ON SEVERAL POINTS NOT SET FORTH IN THE ORIGINAL TENDER AND NOT SPECIFICALLY COVERED IN THAT FIRM'S OFFER.

4. THE CEPE ANNOUNCEMENT REPORTED THAT THIS FIRM, WHICH WOULD WORK IN ASSOCIATION WITH THE ITALIAN FIRM MICOPERI, HAD SUBMITTED THE LOWEST PRICE OFFER, 390 MILLION SUCRES (25 SUCRES OFFICIALLY EQUAL US\$1). ACTUALLY, THIS FIRM'S PRICE OFFER IN THE FORMAL BIDDING PROCESS WAS 483 MILLION SUCRES, AS COMPARED WITH ONLY 393 MILLION QUOTED BY OCEANIC, 437 MILLION BY THE ITALIAN FIRM TECHINT AND 625 MILLION BY THE FRENCH FIRM BOUYGES. AFTER THESE OFFERS HAD BEEN RECEIVED, CEPE PERMITTED THE BIDDERS TO ADJUST THEIR PRICES. THE EMBASSY HAS LEARNED THAT OCEANIC REFUSED TO MAKE ANY ADJUSTMENT, ON THE GROUNDS THAT ITS PRICE OFFER ALREADY REPRESENTED THE LOWEST POSSIBLE, AND THAT ANY LOWERING OF THE PRICE COULD ONLY BE ACCOMPLISHED THROUGH A LOWERING OF

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THE QUALITY OF THE WORK TO BE PERFORMED. SOTOMAR, ON THE OTHER HAND, REDUCED ITS PRICE OFFER BY SOME 93 MILLION SUCRES TO A LEVEL BARELY UNDER OCEANIC'S (WHILE TECHINT REDUCED ITS TO A LEVEL SLIGHTLY ABOVE OCEANIC'S).

5. CEPE'S NOVEMBER 17 ANNOUNCEMENT SAYS THAT IF NEGOTIATIONS WITH SOTOMAR FAIL, CEPE WILL NEGOTIATE WITH EACH OF THE NEXT-LOWEST BIDDERS ONE BY ONE, I.E., FIRST WITH

OCEANIC, THEN TECHINT, THEN BOUYGES, UNTIL A SATISFACTORY AGREEMENT IS REACHED. END UNCLASSIFIED.

6. BEGIN CONFIDENTIAL. EMBASSY COMMENT: EVEN IF CEPE HAD NOT CALLED FOR QUESTIONABLE POST-BIDDING MODIFICATIONS IN THE BID PRICES, IT IS POSSIBLE THAT CEPE WOULD HAVE SOUGHT SOME WAY TO AVOID AWARDING THE CONTRACT TO OCEANIC; THAT WOULD HAVE BEEN EMBARRASING TO MINISTER OF NATURAL RESOURCES VARGAS--THE DOMINANT DECISION-MAKER ON THE CEPE BOARD--WHO SUPPORTED THE FORMER CEPE DIRECTOR IN A BATTLE THAT AROSE DURING A PREVIOUS, LATER-CANCELLED BID FOR THE OFFSHORE TERMINAL (SEE REFS).

7. OCEANIC'S LOCAL AGENT, A PROMINENT ECUADOREAN BUSINESS-MAN, TOLD THE E/C COUNSELOR NOVEMBER 18 THAT IN BREAKING THE BAD NEWS TO OCEANIC, THROUGH A TELEPHONE CALL TO NEW ORLEANS THE PREVIOUS EVENING, HE HAD TOLD THEM HE WAS CONFIDENT HE COULD STILL WIN THE CONTRACT FOR OCEANIC IF THE FIRM AGREES TO "PLAY THIS GAME THE ECUADOREAN WAY"--I.E., BY NOW REDUCING OCEANIC'S PRICE OFFER TO A LEVEL BELOW SOTOMAR'S, IN THE KNOWLEDGE THAT THE PRICE CAN SUBSEQUENTLY BE RAISED BY TAKING ADVANTAGE OF THE ABOVE-MENTIONED EXPECTED PROVISIONS OF THE CONTRACT--BUT HE ADDED THATU HE HAD RECOMMENDED AGAINST THAT, AND OCEANIC OFFICIALS HAD AGREE TO FOREGO THAT OPTION.

8. INSTEAD, OCEANIC'S REPRESENTATIVE SAID, THE COMPANY'S CURRENT STRATEGY IS TO TAKE ITS CASE TO THE ECUADOREAN PRESS, SEEKING TO HAVE NEWS STORIES AND COMMENTARIES PUBLISHED THAT WILL BRING OUT THE IRREGULARITIES IN THE TENTATIVE DECISION IN FAVOR OF SOTOMAR, AND WILL ALSO BRING OUT WHATEVER INFORMATION CAN BE FOUND THAT CASTS DOUBTS ON THE DESIRABILITY OF AWARDING THE CONTRACT TO SOTOMAR AND CONFIDENTIAL

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ITS ASSOCIATE MICOPERI. FOR EXAMPLE, HE SAID, HE WILL STRESS THE TECHNICAL ADVANTAGES OF OCEANIC'S PROPOSED SEA-BASED CONSTRUCTION TECHNIQUE OVER SOTOMAR'S LAND-BASED TECHNIQUE; AND HE IS TRYING TO OBTAIN INFORMATION ABOUT AN OFFSHORE TERMINAL THAT WAS CONSTRUCTED BY MICOPERI IN THE BAHAMAS WHICH REPORTEDLY PROVED DEFECTIVE AND EVENTUALLY HAD TO BE PARTIALLY REDONE BY OCEANIC'S PARENT FIRM MCDERMOTT.

9. WHILE OCEANIC'S LOCAL REPRESENTATIVE SAID HE IS NOT AT ALL OPTIMISTIC THAT THIS STRATEGY WILL SUCCEED, HE SAID HE HAS NOT LOST HOPE ENTIRELY, AND HE IS ENCOURAGED BY THE FACT THAT SEVERAL KEY TECHNICAL EXPERTS ON CEPE'S STAFF HAVE MADE PLAIN THEY ARE AS UNHAPPY AS IS OCEANIC ABOUT THE FAILURE OF THE CEPE BOARD TO DECIDE IN FAVOR OF OCEANIC.

END COMMENT, END CONFIDENTIAL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM REFINING, REFINERIES, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976QUITO08209
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760432-0993
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761130/aaaaazqa.tel
Line Count: 171
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 QUITO 5904, 76 QUITO 6033
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2004 by SmithRJ>; APPROVED <08 NOV 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOE ANNOUNCES TENTATIVE DECISION TO AWARD CONTRACT FOR ESMEALDAS REFINERY'S OFFSHORE TERMINAL TO SPANISH- ITALIAN GROUP
TAGS: BEXP, ENRG, EC
To: STATE COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006